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ADDRESS

**REMARKS OF J. STROM THURMOND, GOVERNOR OF SOUTH
CAROLINA, BEFORE THE NATIONAL GOVERNORS' CONFERENCE,
WENTWORTH-BY-THE-SEA, NEW HAMPSHIRE, ~~JUNE 14, 1948~~.**

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TAXATION AND FISCAL POLICIES

The problem of coordinating and clarifying the relationship of Federal taxation and fiscal policies to State policies has been attacked forcefully by the Governors' Conference, both in its annual meeting last July in Utah, and through the splendid work of its committee in conference with Congressional committees last September in Chicago.

No one will deny that considerable progress has been made toward a solution of some of the problems of duplication and improper adjustments which now burden the taxpayer. We are closer today to a more thorough understanding of the proper spheres of Federal and State governments in the tax field. We have come very close to a meeting of the minds as to the need for readjustment in particular instances.

However, after studying carefully the history of the nation's efforts to solve this vexing problem, I feel very keenly that unless we take certain definite steps immediately, our own efforts may fail, as so many have failed in the past.

I believe the time is now ripe for a permanent State and Federal organization which will cope with the question

of intergovernmental fiscal relationships in a lasting and continuing manner.

A brief glance at the history of public activity toward reforming our tax and fiscal policies shows, unfortunately, that a great deal of work has been done to very little purpose. It is obvious that neither the Federal Government nor any State, acting as a unit, can hope to effect tax readjustments acceptable to all. Yet no permanent joint group representing both types of governments has ever been organized.

It is generally agreed that the movement toward permanent Federal-State tax coordination began actively in 1917 through a meeting of the National Council of States. America's entry into World War I obliterated this forward movement.

In 1920, a proposal was made to the annual Governors' Conference that a Federal-State fiscal agency be created. Nothing came of this proposal, either.

In 1933, the 1st General Assembly of States, held under the auspices of the American Legislators' Association, created an Inter-State Commission on Conflicting Taxation. An exhaustive report made by this group, completed in 1935, enhanced interest in the need for action, but none of its proposals was adopted by Congress.

In 1941 the General Assembly of States endorsed

a proposal for a national tax commission. Later the Treasury Department appointed a Committee on Intergovernmental Fiscal Relations, which submitted a broad report in 1943. This report showed, among many other unfortunate conditions, that in 1941 88.4 per cent of federal tax revenues and 75.4 per cent of state tax revenues, were derived from overlapping sources. But nothing came of this report, either, since World War II intervened.

Thus, two World Wars effectively stopped Federal-State progress in this field. Today, despite the many years of lengthy surveys and broad recommendations, the problem is greater than ever before.

This question, like the poor, will always be with us until we have perfected a permanent agency which can deal with it, not in laborious surveys, over several years, but day by day and month by month. The problem is primarily too vast to be dealt with spasmodically by groups such as this conference. It is too complicated and too technical to be handled without adequate staffs. Also, and more important, it is so changeable that conditions are always materially altered from one year to the next.

In this and in succeeding meetings we may continue to pick at various aspects of the problem with limited success. But we cannot substantially attack the problem itself, as a whole, except through an organization functioning as a permanent arm of

the Federal Government.

I, therefore, suggest that the Governors' Conference give consideration to the adoption of a resolution calling for the formation, by the Congress, of a Committee on Intergovernmental Tax and Fiscal Relationships. This committee would be composed not only of representatives of the Federal Government but also of members from the various States. It is suggested that the Federal government's portion of the proposed committee might be the existing Joint Committee on Internal Revenue Taxation, which is a full-time agency equipped to serve in such capacity.

I sincerely believe that such action may be our only opportunity to win a lasting achievement in these discussions.

The nation is faced with the tremendous cost of its national security program, a huge national debt, and great increases in the cost of government. Also, the growth of Federal assistance in matching of State funds, is rapidly increasing the cost of Government services to the Nation. These factors may cause the Federal Government to feel that it is compelled to dominate the total sources of tax revenue.

The apparent trend in Washington today is toward a broadening of Federal tax systems. In order to make certain that this trend shall take a course that will not endanger the traditional

fiscal policies of our States, it is of paramount importance that a coordinating agency be set up without loss of time. This proposal, incidentally, is in line with the report of the Tax Committee of the Council of State Governments, which called for "clear channels for consultation on all issues of mutual concern, and expansion of the administrative cooperation now existing in the collection of taxes common to both jurisdictions."

While we look upon the formation of this permanent agency as the immediate and paramount objective, we must not lose sight of certain important specific tax reforms which should be met at once by Congress. Among them, it appears that the following demand prompt consideration:

1. In revising Federal war-time tax structures, first priority should be given to repeal of taxes on automotive transportation, including gasoline, oil, automobiles, and tires and tubes; and to repealing the tax on telephone and telegraph services. These are peculiarly adaptable to State and local administration.

2. The Federal admissions tax should also have a high priority for early repeal. It is an excellent source of revenue for State and local administrations.

3. The Federal war-time excise taxes, and the excises imposed during the depression, should be repealed, or at least they

should be restored to the peacetime levels, as soon as revenues safely permit.

4. In the field of income taxation, it would be of real benefit to taxpayers if States were to pattern their taxing systems after that of the Federal Government. Then tax forms, deductions, definitions of income, etc., would be identical. Serious problems incident to Federal and State income taxation include: Diversity of application forms; lack of adequate interchange of confidential information; and rate inequalities arising from failure to dovetail State and Federal levies. In this connection, a wise move would be to set up State income levies on the basis of a percentage of the Federal payments, which would simplify the entire problem. I do not believe it wise, as some do, for the States to get out of the income tax field entirely. In many States this would be disastrous. In my own State, for instance, approximately one third of our revenue is derived from this source.

5. In the matter of death and gift taxes, a definite improvement would be the collection of the entire tax by the Federal Government, and a redistribution to the States of their respective shares. I do not hold to the opinion that death and gift taxes should be relegated to the States alone. Such readjustment would invite competition among the States, which might prove fatal to

interstate cooperation.

The readjustments mentioned are all important.

But, I reiterate, the prime consideration before us is the need for a permanent Federal-State Committee on Intergovernmental Tax and Fiscal Relationships. We might well ask ourselves the question, posed by the "Book of the States", back in 1937: "Will 1950 find a self-governing people staggering under worse multiplied tax burdens, still only listening to reports about it and wishing somebody would do something?" That was 11 years ago. Still the nation waits. It is within the power of this conference to initiate the action which will accomplish a tax reform of historic importance to the nation.

PROPOSED RESOLUTION TO BE SUBMITTED TO THE ANNUAL
GOVERNORS' CONFERENCE, WENTWORTH-BY-THE-SEA, NEW
HAMPSHIRE, JUNE 14, 1948.

WHEREAS, the need for improved coordination between the Federal Government and the various States in tax and fiscal policy relationships is greater today than ever before, and

WHEREAS, the people of the United States have striven for many years to arrive at a permanent means of insuring intergovernmental tax and fiscal cooperation, and

WHEREAS, many such movements have come to failure, principally because of intervening wars, and

WHEREAS, there exists in the United States today no permanent means of insuring continuous procedure toward the removal of overlapping and duplication in Federal and State taxing systems,

NOW, THEREFORE, we, the Governors of States assembled in the annual Governors' Conference, do hereby resolve, that it is necessary to the welfare of the people of the United States that the United States Congress set up by proper legislation a permanent Joint Committee on Intergovernmental Tax and Fiscal Relationships, to be composed of full-time representatives both of the Federal Government and of the various States.

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